



F & A DAIRY of CALIFORNIA, INC.

August 14, 2007

The Honorable A.G. Kawamura, Secretary
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

Dear Secretary Kawamura:

The undersigned California cheese manufacturers respectfully request the Department call a hearing to change the Class 4b pricing formula in Northern and Southern California. The below extracts of the Stabilization and Marketing Plans for Market Milk for the Northern and Southern California Marketing Areas contain proposed changes to Class 4b pricing formulas and comprise our petition for this hearing. This hearing is being requested pursuant to Division 21, Part 3, Chapter 2, Article 4 through Article 9 of the Food and Agricultural Code, including Sections 61802 through 62079.

Reasons why changes are needed:

Cheese manufacturers in California are facing an economic crisis due to the detrimental effect of the current dry whey cost factor in the Class 4b milk pricing formula. Cheese manufacturers do not realize the full revenue that is attributed to them by the current 4b formula and are incurring losses that threaten their financial viability. In order for California cheese manufacturers to continue production, the whey cost factor should be removed from the Class 4b formula immediately.

The Department **must act immediately and on an emergency basis** to change the Class 4b milk formula to protect the long term viability of cheese manufacturers and the dairy farmers in the state of California.

Description of requested changes:

Proposed Changes to the Northern and Southern California Stabilization and Marketing Plans.

Article III. Section 300.0,

(E) The minimum prices to be paid for components used for Class 4b shall be computed as follows:

- (1) The Cheese hundredweight price shall be the price per hundredweight computed by the sum of the following:
 - (a) The price per hundredweight computed by the formula using the Cheddar cheese price, less an f.o.b. California price adjuster of two and fifty-two hundredths cents (\$0.0252), less a Cheddar cheese manufacturing cost allowance of seventeen and eight tenths cents (\$0.178), all multiplied by a yield factor of ten and two-tenths (10.2).
 - (b) The price per hundredweight computed by the formula using the butter price, less a manufacturing cost allowance of fifteen and six tenths cents (\$0.156), less ten cents (\$0.10), all multiplied by a yield factor of twenty-seven-hundredths (0.27).
 - ~~(c) The price per hundredweight computed by the formula using the dry whey price, less a manufacturing cost allowance of twenty-six and seven tenths cents (\$0.267), all multiplied by a yield factor of 5.8.~~
- (2) For all milk fat, not less than the price per pound computed pursuant to Subparagraph (D)(1) of this Section.
- (3) For all milk solids-not-fat, not less than the price per pound computed by the formula using the Cheese hundredweight price established pursuant to Subparagraph (E)(1) less the product of three and seventy-two hundredths (3.72) multiplied by the Class 4b fat price established pursuant to Subparagraph (E)(2), all divided by eight and eighty hundredths (8.80).
- (4) The Cheddar cheese prices used in calculations pursuant this Paragraph shall be the simple average of the 40 pound block Cheddar cheese price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.
- (5) The butter prices used in calculations pursuant this Paragraph shall be the simple average of the Grade AA butter price quotations for the last significant trading action for sale, offer or bid at the Chicago Mercantile Exchange falling between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.
- ~~(6) The dry whey prices used in calculations pursuant to this Paragraph shall be the simple average of the Dry Whey—West Mostly prices as published in Dairy Market News between the period beginning the 26th day of the previous month and concluding the 25th day of the current month.~~
- (7) In the event the Chicago Mercantile Exchange 40 pound block Cheddar cheese price is not available to calculate the Cheese hundredweight price,



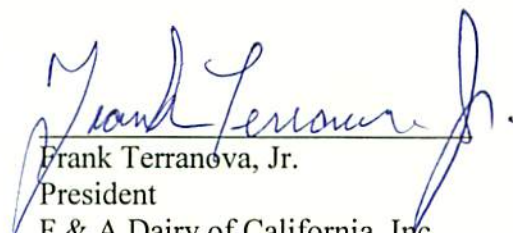
pursuant to Subparagraph (E)(1), then used in its place shall be the cheese price used in the prior month's calculation of the Cheese hundredweight price.

- (8) In the event that the Chicago Mercantile Exchange Grade AA butter price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the Grade AA butter price used in the prior month's calculation of the Cheese hundredweight price.

- ~~(9) In the event that the Dry Whey—West Mostly price is not available to calculate the Cheese hundredweight price, pursuant to Subparagraph (E)(1), then used in its place shall be the Dry Whey—West Mostly price used in the prior month's calculation of the Cheese hundredweight price.~~

We greatly appreciate your immediate attention to this matter and encourage you to contact any of us with questions about our respective specific current financial conditions.

Submitted Respectfully by the Undersigned:


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